BRT REALTY TRUST
Form 10-Q
February 06, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended December 31, 2008

OR

o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number 001-07172

BRT REALTY TRUST
(Exact name of Registrant as specified in its charter)

Massachusetts	13-2755856
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
60 Cutter Mill Road, Great Neck, NY	11021
(Address of principal executive offices)	(Zip Code)

516-466-3100
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "small reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

Indicate the number of shares outstanding of each of the issuer's classes of stock, as of the latest practicable date.

11,784,273 Shares of Beneficial Interest,
$3 par value, outstanding on February 5, 2009

Part 1 - FINANCIAL INFORMATION
Item 1. Financial Statements

BRT REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands except per share amounts)

	December 31, 2008 (Unaudited)	September 30, 2008 (Audited)
ASSETS		
Real estate loans		
Earning interest	$ 128,116	$ 118,028
Non-earning interest	5,384	18,407
	133,500	136,435
Deferred fee income	(559)	(882)
Allowance for possible losses	(1,550)	(6,710)
	131,391	128,843
Real estate properties net of accumulated depreciation of $1,754 and $1,501	46,337	42,347
Investment in unconsolidated ventures at equity	9,547	9,669
Cash and cash equivalents	11,732	35,765
Available-for-sale securities at market	6,184	10,482
Real estate properties held for sale	35,533	34,665
Other assets including $219 and $168 relating to real estate properties held for sale	8,549	8,249
Total Assets	$ 249,273	$ 270,020
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Borrowed funds	$ 6,000	$ 3,000
Junior subordinated notes	56,702	56,702
Mortgage payable	2,294	2,315
Accounts payable and accrued liabilities including $561and $584 relating to real estate properties held for sale	3,527	3,602
Deposits payable	1,847	2,064
Dividends payable	-	15,565
Total liabilities	70,370	83,248
Commitments and contingencies	-	-
Shareholders' equity:		
Preferred shares, $1 par value: Authorized 10,000 shares, none issued	-	-
Shares of beneficial interest, $3 par value:		
Authorized number of shares, unlimited, issued	-	-
12,711 shares in both periods	38,133	38,133
Additional paid-in capital	166,622	166,402

Accumulated other comprehensive income – net unrealized gain on available-for-sale securities	2,828	7,126
Distributions in excess of earnings	(17,934)	(14,311)
Cost of 1,251 and 1,206 treasury shares of beneficial interest	(10,746)	(10,578)
Total Shareholders' Equity	178,903	186,772
Total Liabilities and Shareholders' Equity	$ 249,273	$ 270,020

See Accompanying Notes to Consolidated Financial Statements.

BRT REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(Dollar amounts in thousands except per share amounts)

	Three Months Ended December 31, 2008	Three Months Ended December 31, 2007
Revenues:		
Interest on real estate loans	$ 3,848	$ 5,782
Loan fee income	484	675
Income from real estate properties	1,001	445
Other, primarily investment income	201	606
Total Revenues	5,534	7,508
Expenses:		
Interest - borrowed funds	1,399	1,735
Advisor's fees, related party	357	464
Impairment charges	3,500	-
Foreclosure related professional fees	348	739
General and administrative – including $263 and $259 to related parties	1,672	1,765
Other taxes	(4)	27
Expenses relating to real estate properties - including interest on mortgage payable of $37 and $38	1,688	398
Amortization and depreciation	279	43
Total Expenses	9,239	5,171
(Loss) income before equity in earnings of unconsolidated joint ventures, minority interest and discontinued operations	(3,705)	2,337
Equity in earnings of unconsolidated joint ventures	84	451
(Loss) income before minority interest and discontinued operations	(3,621)	2,788
Minority interest	(44)	(15)
(Loss) income from continuing operations	(3,665)	2,773
Discontinued Operations		
Income from operations	42	63
Gain on sale of real estate assets	-	394
Income from discontinued operations	42	457
Net (loss) income	$ (3,623)	$ 3,230
(Loss) earnings per share of beneficial interest:		
(Loss) income from continuing operations	$ (.31)	$ .24
Income from discontinued operations	-	.04
Basic (loss) earnings per share	$ (.31)	$ .28
(Loss) income from continuing operations	$ (.31)	$ .24
Income from discontinued operations	-	.04
Diluted (loss) earnings per share	$ (.31)	$ .28

Cash distributions per common share	$ -	$ .62
Weighted average number of common shares outstanding:		
Basic	11,694,769	11,369,933
Diluted	11,694,769	11,380,561

See Accompanying Notes to Consolidated Financial Statements.

BRT REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Unaudited)
(Dollar amounts in thousands except for per share amounts)

	Shares of Beneficial Interest	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Distributions In Excess of Earnings	Treasury Shares	Total
Balances, September 30, 2008	$ 38,133	$ 166,402	$ 7,126	$ (14,311)	$ (10,578)	$ 186,772
Compensation expense – restricted stock	-	220	-	-	-	220
Shares repurchased (44,724 shares)					(168)	(168)
Net loss	-	-	-	(3,623)	-	(3,623)
Other comprehensive loss - net unrealized loss on available-for-sale securities	-	-	(4,298)	-	-	(4,298)
Comprehensive loss	-	-	-	-	-	(7,921)
Balances, December 31, 2008	$ 38,133	$ 166,622	$ 2,828	$ (17,934)	$ (10,746)	$ 178,903

See Accompanying Notes to Consolidated Financial Statements.

BRT REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Amounts in Thousands)

	Three Months Ended December 31, 2008	Three Months Ended December 31, 2007
Cash flows from operating activities:		
Net (loss) income	$ (3,623)	$ 3,230
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Impairment charges	3,500	-
Amortization and depreciation	439	258
Amortization of deferred fee income	(419)	(644)
Amortization of restricted stock and stock options	220	187
Net gain on sale of real estate assets from discontinued operations	-	(394)
Equity in earnings of unconsolidated joint ventures	(84)	(451)
Distribution of earnings of unconsolidated joint ventures	153	446
Increase in straight line rent	(4)	(4)
Increases and decreases from changes in other assets and liabilities:		
(Increase) decrease in interest and dividends receivable	(158)	158
Decrease (increase) in prepaid expenses	40	(90)
Decrease in accounts payable and accrued liabilities	(292)	(1,375)
Other	59	(271)
Net cash (used in) provided by operating activities	(169)	1,050
Cash flows from investing activities:		
Collections from real estate loans	2,134	11,832
Additions to real estate loans	(11,860)	(11,362)
Net costs capitalized to real estate owned	(1,239)	(27)
Collection of loan fees	195	436
Proceeds from sale of real estate owned	-	421
Contributions to unconsolidated joint ventures	(123)	(532)
Distributions of capital of unconsolidated joint ventures	245	154
Net cash (used in) provided by investing activities	(10,648)	922
Cash flows from financing activities:		
Proceeds from borrowed funds	6,000	16,000
Repayment of borrowed funds	(3,000)	(16,000)
Increase in deferred credit facility costs	(462)	(462)
Mortgage amortization	(21)	(19)
Cash distribution – common shares	(15,565)	(6,956)
Issuance of shares – dividend reinvestment and stock purchase plan	-	3,633
Repurchase of shares	(168)	-
Net cash used in financing activities	(13,216)	(3,804)
Net decrease in cash and cash equivalents	(24,033)	(1,832)
Cash and cash equivalents at beginning of period	35,765	17,103
Cash and cash equivalents at end of period	$ 11,732	$ 15,271

Supplemental disclosure of cash flow information:				
Cash paid during the period for interest	$	1,302	$	1,601
Non cash investing and financing activity:				
Reclassification of loans to real estate upon foreclosure	$	7,500	$	28,745
Accrued distributions	$	-	$	7,083
Reclassification of real estate properties to real estate held for sale	$	78	$	-

See Accompanying Notes to Consolidated Financial Statements.

BRT REALTY TRUST AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note 1 – Organization and Background

BRT Realty Trust is a real estate investment trust organized as a business trust in 1972 under the laws of the Commonwealth of Massachusetts. Our principal business is to generate income by originating and holding for investment, for our own account, senior and junior real estate mortgage loans secured by real property. The Trust may also participate as both an equity investor in, and as a mortgage lender to, joint ventures which acquire income producing properties.

Note 2 - Basis of Preparation

The accompanying interim unaudited consolidated financial statements as of December 31, 2008 and for the three months ended December 31, 2008 and December 31, 2007 reflect all normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the results for such interim periods. The results of operations for the three months ended December 31, 2008 are not necessarily indicative of the results for the full year. The balance sheet as of September 30, 2008 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

Certain items on the consolidated financial statements for the preceding period have been reclassified to conform with the current consolidated financial statements.

The consolidated financial statements include the accounts and operations of BRT Realty Trust, its wholly owned subsidiaries and its majority-owned or controlled real estate entities. With respect to its unconsolidated joint ventures, as the Trust (i) is primarily the managing member but does not exercise substantial operating control over these entities pursuant to EITF 04-5 “Determining Whether a General Partner, or the General Partners as a Group Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights”, and (ii) such entities are not variable-interest entities pursuant to FASB Interpretation No. 46(R), “Consolidation of Variable Interest Entities – an interpretation of ARB No.5,” it has determined that such joint ventures should be accounted for under the equity method of accounting for financial statement purposes. Material intercompany items and transactions have been eliminated. BRT Realty Trust and its subsidiaries are hereinafter referred to as "BRT" or the "Trust."

These statements should be read in conjunction with the consolidated financial statements and related notes which are included in BRT’s Annual Report on Form 10-K for the year ended September 30, 2008.

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimates.

Note 3 - Shareholders' Equity

Distributions

During the quarter ended December 31, 2008, BRT did not declare a cash distribution to shareholders.

Note 3 - Shareholders' Equity (Continued)

Stock Options

As of December 31, 2008, there were 22,500 stock options outstanding. All of these options are exercisable. During the quarter ended December 31, 2008, no options were exercised.

Restricted Shares

As of December 31, 2008, 231,340 restricted shares were issued under the Trust's 2003 incentive plan. The total number of shares allocated to this plan is 350,000. The shares issued vest five years from the date of issuance and under certain circumstances may vest earlier. Since inception of the plan, 33,800 shares have vested. For accounting purposes, the restricted stock is not included in the outstanding shares shown on the balance sheet until they vest, but is included in the earnings per share computation. The Trust adopted the provisions of Financial Accounting Standards Board ("FASB") No. 123 (R), "Share-Based Payment (revised 2004)." These provisions require that the estimated fair value of restricted stock at the date of grant be amortized ratably into expense over the appropriate vesting period. For the three months ended December 31, 2008 and 2007, the Trust recorded $220,000 and $187,000 of compensation expense, respectively, as a result of the outstanding restricted shares. At December 31, 2008, $2,108,000 has been deferred as unearned compensation and will be charged to expense over the remaining weighted average vesting period of approximately 2 ½ years.

Per Share Data

Basic (loss) earnings per share were determined by dividing net (loss) income for the period by the weighted average number of common shares outstanding during each period.

Diluted (loss) earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted into common shares or resulted in the issuance of common shares that then shared in the earnings of the Trust.

The following table sets forth the computation of basic and diluted shares:

	Three Months Ended December 31,	
	2008	2007
Basic	11,694,769	11,369,933
Effect of dilutive securities	-	10,628
Diluted (1)	11,694,769	11,380,561

(1) The impact of dilutive securities is not included in the computation of loss per share for the three months ended December 31, 2008, as the inclusion of such common share equivalents would be anti-dilutive.

Note 4 - Real Estate Loans

At December 31, 2008, information relating to real estate loans, all of which are short term (three years or less), is summarized as follows (dollar amounts in thousands):

First mortgage loans:	Earning Interest	Non-Earning Interest	Total	Allowance For Possible Losses (1)	Real Estate Loans, Net
Multi-family residential	$ 4,986	$ 2,393	$ 7,379	$ (850)	$ 6,529
Condominium units (existing multi-family and commercial units)	41,274	-	41,274	-	41,274
Hotel condominium units	4,748	-	4,748	-	4,748
Land	14,322	-	14,322	-	14,322
Retail/mixed use	53,798	-	53,798	-	53,798
Office	1,500	-	1,500	-	1,500
Industrial	2,700	-	2,700	-	2,700
Hotel	3,258	-	3,258	-	3,258
Residential	19	2,700	2,719	(700)	2,019
Second mortgage loans:					
Multi-family residential	1,511	-	1,511	-	1,511
Retail	-	291	291	-	291
	128,116	5,384	133,500	(1,550)	131,950
Deferred fee income	(559)	-	(559)	-	(559)
Real estate loans, net	$ 127,557	$ 5,384	$ 132,941	$ (1,550)	$ 131,391

(1) All allowance for possible losses relate to non-earning loans.

At December 31, 2008, three non-earning loans were outstanding to three separate, unrelated borrowers having an aggregate outstanding principal balance of $5,384,000, representing 4.03% of total real estate loans and 2.16% of total assets. The Trust did not recognize any cash basis interest on non-earning loans in the three month period ended December 31, 2008.

Note 4 - Real Estate Loans (Continued)

Information regarding these non earning loans is set forth in the table below (dollar amounts in thousands):

Loan Designation	Utica/Syracuse, NY	Purchase, NY	New Jersey
Principal Balance	$2,393	$2,700	$291
Accrued Interest	-	-	-
Cross collateral or cross default provision	No	No	Yes
Secured	Yes	Yes	Yes
Security	3 Multi-family apartment buildings	Single family home	5 Retail/ office buildings
Recourse/non-recourse	Recourse	Recourse	Recourse
Impaired	Yes	Yes	No
Allowance for possible losses	$850	$700	-
Collateral Dependent	Yes	Yes	Yes

A summary of the changes in non-earning loans, before allowance for possible losses of $1,550,000, for the three months ended December 31, 2008 is as follows (dollar amounts in thousands):

	Three Months Ended December 31, 2008	
Beginning principal balance	$	18,407
Additions		-
Protective advances		-
Total additions		-
Payoffs and paydowns		363
Transferred to owned real estate		12,660
Total reductions		13,023
Principal balance at December 31, 2008	$	5,384

During the quarter ended December 31, 2008, the Trust acquired by foreclosure, title to a development parcel of land located in Manhattan, New York. At September 30, 2008, the gross principal balance of this loan, which was reported as non-earning, was $6,162,000, before loan loss allowances of $1,645,000.

During the quarter ended December 31, 2008, the Trust acquired by foreclosure, title to a 44 unit garden apartment complex in Naples, Florida. At September 30, 2008, the gross principal balance of this loan, which was reported as non-earning, was $6,498,000 before loan loss allowances of $3,515,000.

Note 4 - Real Estate Loans (Continued)

At December 31, 2008, four separate, unaffiliated borrowers had loans outstanding in excess of 5% of the total portfolio before loan loss allowances. Information regarding the loans outstanding to each of these borrowers is set forth in the table below:

Gross Loan Balance	# of Loans	% of Gross Loans	% of Assets	Type	State	Status
$ 37,428,000	19	28.04%	15.01%	Existing office with retail and land assemblage	NJ	Performing
$ 26,075,000	1	19.53%	10.46%	Existing office/condo conversion	NY	Performing
$ 22,925,000	1	17.17%	9.20%	Existing retail/office building	NY	Performing
$ 8,700,000	1	6.52%	3.49%	Multi-family, condo units	NY	Performing

Note 5 - Allowance for Possible Loan Losses

An analysis of the loan loss allowance at December 31, 2008 and December 31, 2007 respectively is as follows (dollar amounts in thousands):

	Three Months Ended December 31,	
	2008	2007
Balance at beginning of period	$ 6,710	$ 8,917
Charge-offs	(5,160)	(2,297)
Balance at end of period	$ 1,550	$ 6,620

The allowance for possible losses applies to two loans aggregating $5,093,000 at December 31, 2008, both of which are non-earning, and four loans aggregating $42,341,000 at December 31, 2007, all of which were non-earning.

Note 6 - Real Estate Properties

A summary of real estate properties for the three months ended December 31, 2008 is as follows (dollar amounts in thousands):

	September 30, 2008 Balance	Additions	Costs Capitalized	Transfers to held for sale	Depreciation and Amortization	Impairment Charges	December 31, 2008 Balance
Retail	$ 3,159	-	-	-	$ (28)	-	$ 3,131
Condominium units/coop shares	19,846	-	$ 92	$ (78)	(147)	$ (3,500)	16,213
Multi-family	8,905	$ 2,960(a)	349	-	(84)	-	12,130
Land	10,437	4,419(b)	7	-	-	-	14,863
Total real estate properties	$ 42,347	$ 7,379	$ 448	$ (78)	$ (259)	$ (3,500)	$ 46,337

Note 6 - Real Estate Properties (Continued)

(a) During the current fiscal quarter, the Trust acquired by foreclosure a 44 unit garden apartment complex in Naples,Florida. At December 31, 2008, this property had a book value of $2,960,000. This balance is net of loan charge offs of $3,515,000.

(b) During the current fiscal quarter, the Trust acquired by foreclosure a development parcel of land located in Manhattan, New York. This property had a book value at December 31, 2008 of $4,419,000. This balance is net of loan charge offs of $1,645,000.

Note 7 – Impairment Charges

The Trust reviews each real estate asset owned, including investments in unconsolidated joint ventures, for which indicators of impairment are present to determine whether the carrying amount of the asset can be recovered. Measurement is based upon the fair value of the asset. Real estate assets held for sale are valued at the lower of cost or fair value, less costs to sell on an individual asset basis.

As a result of changes in the real estate market the Trust has shifted its marketing strategy and therefore its valuation model relating to a property in Apopka, Florida. The Trust has valued this property as a rental property with the ability to sell individual units when the market stabilizes. Based upon this valuation an impairment charge of $3,500,000 was recorded in the quarter ended December 31, 2008.

Note 8 – Investment in Unconsolidated Joint Ventures at Equity

BRT Funding LLC

BRT Joint Venture No. 1 LLC, a wholly owned subsidiary of the Trust which is referred to as the BRT member, entered into a joint venture agreement with CIT Capital USA, Inc., which is referred to herein as the CIT member and which is a wholly owned subsidiary of CIT Group, Inc. to form BRT Funding LLC, a limited liability company established under the laws of the State of Delaware, which is referred to as “the Joint Venture.” The Joint Venture engages in the business of investing in short-term commercial real estate loans for terms of six months to three years, commonly referred to as bridge loans. The BRT member is the managing member of the Joint Venture. The initial capitalization of the Joint Venture may be up to $100 million of which 25% is being funded by the BRT member and 75% is being funded by the CIT member.

The BRT member is responsible for the payment of a fee to a merchant bank for arranging the transaction and securing capital from the CIT member. The fee, which is 4% of the CIT member’s capital and is paid as the CIT member funds its capital contribution, is being amortized over five years. As of December 31, 2008, a fee of $1,382,000 has been paid. Amortization of the fee totaled $68,000 for the three month period ended December 31, 2008, and is shown as a reduction in equity in earnings of unconsolidated joint ventures.

The Trust has agreed to present all loan proposals received by it to the joint venture for its consideration on a first refusal basis, under procedures set forth in the joint venture agreement, until the joint venture originates loans with an aggregate principal amount of $100 million (or, in the event that a line of credit at the maximum level is obtained, $150 million). There were no loans originated by the joint venture in the quarter ended December 31, 2008 or in the quarter ended December 31, 2007.

Note 8 – Investment in Unconsolidated Joint Ventures at Equity (Continued)

Unaudited condensed financial information regarding the joint venture is shown below (dollar amounts in thousands):

Condensed Balance Sheet	December 31, 2008		September 30, 2008	
Assets				
Cash	$	608	$	359
Real estate loans:				
Earning interest		6,323		6,323
Non-earning interest		26,421		26,421
		32,744		32,744
Deferred fee income		(143)		(160)
Allowance for possible losses		(2,703)		(2,703)
		29,898		29,881
Other assets		51		82
Real estate property held for sale		-		1,143
Total assets	$	30,557	$	31,465
Liabilities and equity				
Other liabilities	$	230	$	211
Equity		30,327		31,254
Total liabilities and equity	$	30,557	$	31,465

	Three Months Ended			
Condensed Statement of Operations	December 31, 2008		December 31, 2007	
Interest and fees on real estate loans	$	419	$	1,852
Other income		39		-
Total revenues		458		1,852
Professional fees		72		-
Other expenses		38		137
Total Operating expenses		110		137
Net income attributable to members	$	348	$	1,715
Amount recorded in income statement related to venture (1)	$	35	$	447

(1) This amount is net of $68,000 and $76,000 in the three months ended December 31, 2008 and December 31, 2007, respectively, of amortization of the fee that the Trust paid to a merchant bank for arranging the transaction with the CIT member. This amount also includes a management allocation equal to 1% per annum of the loan portfolio, as defined, of $16,000 in the three month period ended December 31, 2008, paid to the BRT Member.

Note 8 – Investment in Unconsolidated Joint Ventures at Equity (Continued)

At December 31, 2008, information as to real estate loans held by the joint venture is summarized as follows (dollar amounts in thousands):

First mortgage loans	Earning Interest	Not Earning Interest	Total
Multi-family residential	-	$ 26,421	$ 26,421
Land	$ 6,323	-	6,323
	6,323	26,421	32,744
Allowance for loan loss	-	(2,703)	(2,703)
Deferred fee income	(11)	(132)	(143)
Real estate loans, net	$ 6,312	$ 23,586	$ 29,898

Other Real Estate Ventures

The Trust is also a partner in unconsolidated joint ventures which own and operate six properties which generated $49,000 and $4,000 in equity earnings for the three months ended December 31, 2008 and 2007, respectively. The Trust's equity in these unconsolidated joint ventures totaled $1,980,000 and $1,857,000 at December 31, 2008 and September 30, 2008, respectively.

Note 9 – Available-For-Sale Securities

The cost of available-for-sale securities at December 31, 2008 was $3,356,000. The fair value of these securities was $6,184,000 at December 31, 2008. Gross unrealized gains were $2,850,000 and gross unrealized losses totaled $22,000 at December 31, 2008. These amounts are reflected as net accumulated other comprehensive income – net unrealized gains on available-for-sale securities in the accompanying consolidated balance sheets.

The valuation of the Trust's available-for-sale securities was determined to be a Level 1 financial asset within the valuation hierarchy established by SFAS No. 157, and is based on current market quotes received from financial sources that trade such securities.

Included in available-for-sale securities are 131,289 shares of Entertainment Properties Trust (NYSE:EPR), which have a cost basis of $1,725,000 and a fair market value at December 31, 2008 and September 30, 2008 of $3,912,000 and $7,184,000 respectively.

Note 10 – Real Estate Properties Held for Sale

A summary of changes in real estate properties held for sale is shown below (dollar amounts in thousands):

	September 30, 2008 Balance	Additions	Transfers From Real Estate Assets	Improvements	Impairment Charges	Sales	December 31, 2008 Balance
Condominium Units	$ 5,028	$ -	$ 78	$ 62	$ -	$ -	$ 5,168
Multi-family	29,637	-	-	728	-	-	30,365
Total	$ 34,665	$ -	$ 78	$ 790	$ -	$ -	$ 35,533

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Note 11 – Debt Obligations

Debt obligations consist of the following (dollar amounts in thousands):

	December 31, 2008	September 30, 2008
Credit facility	$ 6,000	$ 3,000
Junior subordinated notes	56,702	56,702
Mortgage payable	2,294	2,315
Total debt obligations	$ 64,996	$ 62,017

Borrowed Funds

The Trust has a $185 million credit facility with Capital One Bank, VNB New York Corp., Signature Bank and Manufacturers and Traders Trust Company. The facility bears interest at LIBOR + 225 basis points. During the current quarter, the credit facility was extended to February 1, 2010 upon the payment of an extension fee of $462,500. There are no further extension options. Under the credit facility, the Trust is required to maintain cash or marketable securities at all times of not less than $15 million. The amount which can be outstanding under the revolving credit facility may not exceed an amount equal to the sum of (1) 65% of our earning first mortgages, plus (2) 50% of our earning second mortgages and (3) 50% of the fair market value of certain of our owned real estate, all of which are pledged to the lending banks as collateral and the sum of (2) and (3) may not exceed 15% of the borrowing base or $22.5 million.

At December 31, 2008, $68,500,000, was available to be drawn under the credit facility and $6,000,000, was outstanding. The following is summary information relating to the credit facility.

	For the Three Months Ended December 31,	
	2008	2007
Average balance	$ 3,098,000	$ 16,326,000
Outstanding balance at period end	$ 6,000,000	$ 20,000,000
Weighted average interest rate during the period	5.31%	7.28%
Weighted average interest rate at period end	4.15%	7.37%

The interest rates do not reflect deferred fee amortization of $116,000 and $175,000 for the three months ended December 31, 2008 and 2007, respectively, which is a component of interest expense. These fees are being amortized over the life of the credit facility. At December 31, 2008, there was $501,000 of unamortized deferred fees, which is included in other assets.

In addition to the credit facility, the Trust has the ability to borrow funds through its two margin accounts. In order to maintain one of the accounts, an annual fee equal to .3% of the market value of the pledged securities, which is included in interest expense, is paid. Marketable securities with a fair market value at December 31, 2008 of $6,184,000 were pledged as collateral. At December 31, 2008, there was no outstanding balance.

Junior Subordinated Notes

BRT issued $30,928,000 principal amount 30-year subordinated notes to BRT Realty Trust Statutory Trust II, an unconsolidated affiliate of BRT. Statutory Trust II was formed to issue $928,000 of its common securities to BRT and to sell $30 million of preferred securities to third party investors. The notes pay interest quarterly

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Note 11 – Debt Obligations (Continued)

at a fixed rate of 8.49% per annum for ten years at which time they convert to a floating rate of LIBOR plus 290 basis points. Dividends are paid to the security holders under the same terms as the subordinated notes. The notes and preferred securities mature in April 2036 and may be redeemed in whole or in part anytime after April 2011, without penalty, at BRT's option. Issuance costs of $944,500 are being amortized over the intended 10-year holding period of the notes. At December 31, 2008 unamortized issuance costs totaled $691,000.

BRT issued $25,774,000 principal amount 30-year subordinated notes to BRT Realty Trust Statutory Trust I, an unconsolidated affiliate of BRT. Statutory Trust I was formed to issue $774,000 of its common securities to BRT and to sell $25 million of preferred securities to third party investors. The notes pay interest quarterly at a fixed rate of 8.23% per annum for ten years at which time they convert to a floating rate of LIBOR plus 300 basis points. Dividends are paid to security holders under the same terms as the subordinated notes. The notes and preferred securities mature in April 2036 and may be redeemed in whole or in part anytime after March 2011, without penalty, at BRT's option. Issuance costs of $822,000 are being amortized over the intended 10- year holding period of the notes. At December 31, 2008 unamortized issuance costs totaled $594,000.

BRT Realty Trust Statutory Trusts I and II are variable interest entities under FIN 46R. Under the provisions of FIN 46R, BRT has determined that the holders of the preferred securities are the primary beneficiaries of the two Statutory Trusts. This determination is based on the fact that BRT's investments in the Statutory Trusts were financed directly by the Statutory Trusts and these investments are not considered to be at risk. Accordingly, BRT is not considered to be the primary beneficiary and does not consolidate the Statutory Trusts. The obligations to the Statutory Trusts are recorded under the caption "Junior Subordinated Notes" in the consolidated balance sheets. The investments in the common securities of the Statutory Trusts are reflected in other assets in the consolidated balance sheets and is accounted under the equity method of accounting. BRT has not provided financial or other support during the periods presented to these variable interest entities that is was not contractually required to provide.

The table below provides the classification and carrying amounts of the assets and liabilities that relate to the variable interest entities and the maximum exposure to loss as a result of its involvement with the variable interest entities:

	Carrying Value	
Assets:		
Other Assets- common securities Statutory Trusts	$	1,702,000